

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal Two)

Docket No. RM2021-4

COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE

(May 14, 2021)

Pursuant to Order No. 5852 (“Order”), the Association for Postal Commerce (“PostCom”) submits these comments on the Postal Service’s proposed change in analytical principles (“Proposal Two”). In principle, PostCom supports efforts by the Postal Service to improve the accuracy of cost estimates and any effort to reduce reliance on sampling to produce such estimates. In this particular instance, however, the changes proposed by the Postal Service are both misguided in approach and procedurally deficient with respect to the analytical support provided in the Postal Service’s request. For the reasons below, the Commission should reject the Postal Service’s petition. To the extent the Commission and the Postal Service seek to improve the quality and utility of cost data compiled by the Postal Service, the conclusion to these comments provides some suggestions.

I. PROPOSAL TWO LACKS ANALYTICAL SUPPORT

The case presented by the Postal Service in Proposal Two does not support the proposed changes. Principally, Proposal Two does not provide sufficient new information to justify departing from Commission decisions rejecting previous attempts to reclassify allied and support cost pools in cost avoidance models.

The Commission stated in Docket No. RM2010-13 that “[u]ntil the Postal Service explicitly models allied/support costs, the Commission will adhere to the established piggyback

method of distributing those costs.” Order No. 1320 at 40. The Postal Service has not explicitly modeled these costs here. Therefore, it has not complied with the Commission’s directive, and the request should be rejected.

Moreover, while PostCom continues to advocate for increasing use of Full Service IMb (“FSIMb”) data in identifying costs associated with mail processing activities, the FSIMb data the Postal Service relies on this proposal is insufficient to support the change. This proposal is distinct from the census approach that PostCom has supported in prior dockets. Here, the FSIMb scans the Postal Service relies on are only those collected during the IOCS sampling process. Proposal Two at 11. Additionally, as the Postal Service acknowledges, it cannot collect scans for a significant portion of IOCS readings—either because the readings are collected by phone or there are various contingencies preventing the collection of accurate scan data. *Id.* at 12. Rather than applying a census approach, the Postal Service is relying on a sample of a sample to identify avoided costs. The Postal Service has not demonstrated that its new approach would result in more robust and accurate data.

II. THE POSTAL SERVICE’S APPROACH TO ANALYTICAL CHANGES COULD LEAD TO INCREASED AND UNNECESSARY VOLATILITY IN RATE

According to the Postal Service’s analysis (Proposal Two Worksharing Tables), Proposal Two would produce significant changes in the estimates of avoided costs used to develop worksharing discounts. For instance, the estimated cost avoidance for barcoding & presorting Automation 5-digit letters would be 28% less under Proposal Two than the current estimate. Such large swings create the possibility of greater volatility in prices, particularly if the Postal Service pursues a rigidly formulaic approach to implementation of Commission rules. In part, this swing is likely the result of the significant time lag between the proposed methodology and the development of the model that has been in use since 2010. Arguably, the large differences are

an inherent byproduct of conversion from sampling-based estimation to census-based (or at least to the use of alternative data sources). Either way, sudden and large changes in cost estimates – if used to support comparable shifts in rate elements – could undermine the pricing predictability envisioned in the Postal Accountability and Enhancement Act.

III. THE POSTAL SERVICE’S APPROACH TO ANALYTICAL PRINCIPLES IS SELECTIVE AND OPPORTUNISTIC

This proposal raises larger issues with the Postal Service’s approach to costing and workshare discounts. The Commission and the Postal Service’s Office of the Inspector General have both provided ample evidence that the Postal Service’s costing methodologies and approach could be improved. For instance, annually the Commission chides the Postal Service for being unable to provide data that could be used to understand how operational changes impact product costs. *See, e.g.*, FY2020 ACD at 241. Further, many special studies used to support postal costs are stale and in need of an update.

However, rather than present a comprehensive plan to improve costing, or at minimum a prioritized set of planned changes, the Postal Service persists in periodically presenting ad hoc changes to its approach designed to address selective problems.

The timing and content of the instant request suggests that the Postal Service is attempting to evade compliance with the Commission’s new passthrough requirements as it prepares to change rates for Market Dominant products. The filing of Proposal Two was coincident with a request – since rejected – that the Commission waive minimum passthrough requirements for First-Class Mail Presort cost avoidances. This creates the appearance that, rather than greater precision in costing, the Postal Service’s motive for presenting Proposal Two is to preserve workshare passthroughs that the Commission has determined to be inefficient.

IV. CONCLUSION

For the reasons presented above, the Commission should reject Proposal Two. Conceptually, PostCom supports greater utilization of a census-based approach to costing relying on Full Service IMb data. Likewise, we support efforts to more frequently update costing models to improve reliability. But this proposal does not advance these goals. Moreover, rather than proceed via the Postal Service's piecemeal approach to requested changes in analytical principles, we believe a more comprehensive, strategic, and rational approach would better serve the Postal Service and its customers. The Commission could facilitate such an approach by initiating either a public inquiry or rulemaking proceeding to ensure that the interests of mailers and their suppliers are considered.

Respectfully submitted,

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